GOVERNMENT OF INDIA
COMMERCE AND INDUSTRY
LOK SABHA

UNSTARRED QUESTION NO:553
ANSWERED ON:24.02.2009
RETAIL SECTOR
Kaushal Shri Raghuvir Singh

Will the Minister of COMMERCE AND INDUSTRY be pleased to state:

(a) whether some State Governments have banned certain domestic and multinational companies from doing business in retail sector and have closed their business establishments;

(b) if so, the details thereof, State-wise and the reaction of the Government thereto;

(c) the details of measures being taken by the Union Government for safeguarding the interest of small domestic retailers; and

(d) the outcome achieved thereon?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF COMMERCE & INDUSTRY(SHRI ASHWANI KUMAR)

(a) & (b): While Foreign Direct Investment (FDI) is not allowed in retail trading except for retailing of Single Brand Products, there is no restriction on domestic retailers to establish retail stores in the country.However, State of Kerala, has, in principle,opposed entry of domestic companies in to the retail sector in the States.

(c) & (d): Government has received various representations from industry associations, against allowing FDI in retail trade. The present policy does not permit FDI in retail trade except Single Brand retail where FDI up to 51%, with prior Government approval,is allowed.Products sold under Single Brand Retail with FDI cater to the brand-conscious,young,middle class clientele having a different niche as compared to that served by the small traders. Hence, FDI in retail trade of single brand products is not expected to affect the existing small traders.Government had instituted a study to assess the impact of organised retailing on unorganised retail trade through Indian Council for Research on International Economic Relations (ICRIER).The findings/recommendations of the ICRIER study are at Annex. Government is fully conscious of the concerns of small domestic retailers and remains committed to securing the legitimate interests of all stakeholders engaged in the retail business.

Statement referred to in reply to parts (c) & (d) of the Lok Sabha unstarred Question No. 553 for answer on 24th February 2009.

FINDINGS AND RECOMMENDATIONS OF ICRIER

The real GDP is expected to grow at 8-10 per cent per annum in the next five years.As a result,the consuming class with annual household incomes above Rs. 90,000 is expected to rise from about 370 million in 2006-07 to 620 million in 2011-12. Consequently, the retail business in India is estimated to grow at 13 per cent annually from US$ 322 billion in 2006-07 to US$ 590 billion in 2011-12. The study shows:

The unorganized retail sector is expected to grow at about 10 per cent per annum with sales rising from US$ 309 billion in 2006-07 to US$ 496 billion in 2011-12.

Given the relatively weak financial state of unorganized retailers, and the physical space constraints on their expansion prospects, this sector alone will not be able to meet the growing demand for retail.

Hence, organized retail which now constitutes a small four per cent of total retail sector is likely to grow at a much faster pace of 45-50 per cent per annum and quadruple its share in total retail trade to 16 per cent by 2011-12.

This represents a positive sum game in which both unorganized and organized retail not only coexist but also grow substantially in size.

The majority of unorganized retailers surveyed in this study,indicated their preference to continue in the business and compete rather than exit.

The Empirical Basis

The study comprised of survey of all segments of the economy that could be affected by the entry of large corporates in the retail business. The findings are based on a survey of 2020 unorganized small retailers across 10 major cities; 1318 consumers shopping

at both organized and unorganized retail outlets; 100 intermediaries; and 197 farmers. In addition, a "control sample" survey was done of 805 unorganized retailers who are not in the vicinity of organized retail outlets in four metro cities.

Detailed interviews were also carried out for 12 large manufacturers, 20 small manufacturers and six established modern retailers.

The study contains an extensive review of international retail experience, particularly from the major emerging market economies.

Main Findings

Impact on Unorganized Retailers

Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large organized retailers.

The adverse impact on sales and profit weakens over time.

There was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers.

There is some decline in employment in the North and West regions which, however, also weakens over time.

The rate of closure of unorganized retail shops in gross terms is found to be 4.2 per cent per annum which is much lower than the international rate of closure of small businesses.

The rate of closure on account of competition from organized retail is lower still at 1.7 per cent per annum.

There is competitive response from traditional retailers through improved business practices and technology upgradation.

A majority of unorganized retailers is keen to stay in the business and compete,while also wanting the next generation to continue likewise.

Small retailers have been extending more credit to attract and retain customers.

However, only 12 per cent of unorganized retailers have access to institutional credit and 37 per cent felt the need for better access to commercial bank credit.

Most unorganized retailers are committed to remaining independent and barely 10 per cent preferred to become franchisees of organized retailers.

Impact on Consumers

Consumers have definitely gained from organized retail on multiple counts.

Overall consumer spending has increased with the entry of the organized retail.

While all income groups saved through organized retail purchases, the survey revealed that lower income consumers saved more. Thus, organized retail is relatively more beneficial to the less well-off consumers.

Proximity is a major comparative advantage of unorganized outlets.

Unorganized retailers have significant competitive strengths that include consumer goodwill, credit sales, amenability to bargaining, ability to sell loose items, convenient timings, and home delivery.

Impact on Intermediaries

The study did not find any evidence so far of adverse impact of organized retail on intermediaries.

There is, however, some adverse impact on turnover and profit of intermediaries dealing in products such as, fruit, vegetables, and apparel.

Over two-thirds of the intermediaries plan to expand their businesses in response to increased business opportunities opened by the expansion of retail.

Only 22 per cent do not want the next generation to enter the same business.

Impact on Farmers

Farmers benefit significantly from the option of direct sales to organized retailers.

Average price realization for cauliflower farmers selling directly to organized retail is about 25 per cent higher than their proceeds from sale to regulated government mandi.

Profit realization for farmers selling directly to organized retailers is about 60 per cent higher than that received from selling in the mandi

The difference is even larger when the amount charged by the commission agent (usually 10 per cent of sale price) in the mandi is taken into account.

Impact on Manufacturers

Large manufacturers have started feeling the competitive impact of organized retail through price and payment pressures.

Manufacturers have responded through building and reinforcing their brand strength, increasing their own retail presence, 'adopting' small retailers, and setting up dedicated teams to deal with modern retailers.

Entry of organized retail is transforming the logistics industry. This will create significant positive externalities across the economy.

Small manufacturers did not report any significant impact of organized retail.

Policy Recommendations

On the basis of the results of the surveys and the review of international retail experience, the study makes the following major recommendations:

1. Modernization of wetmarkets through public-private partnerships.

2. Facilitate cash-and-carry outlets,like Metro, for sale to unorganized retail and procurement from farmers,as in China.

3. Encourage co-operatives and associations of unorganized retailers for direct procurement from suppliers and farmers.

4. Ensure better credit availability to unorganized retailers from banks and micro-credit institutions through innovative banking solutions.

5. Facilitate the formation of farmers' co-operatives to directly sell to organized retailers.

6. Encourage formulation of "private codes of conduct" by organized retail for dealing with small suppliers. These may then be incorporated into enforceable legislation.

7. Simplification of the licensing and permit regime for organized retail and move towards a nationwide uniform licensing regime in the states to facilitate modern retail.

8. Strengthening the Competition Commission's role for enforcing rules against collusion and predatory pricing.

9. Modernization of APMC markets as modelled on the National Dairy Development Board (NDDB) Safal market in Bangalore.

Follow up action on the ICRIER Report:

The ICRIER Report has been forwarded to the State Governments and Ministries/Departments of the Central Government Ministries for comments.